

Dear Chairman Gerald Parsky:

James U. Hall, former president of the Santa Clara County Chartered Life Underwriters Society, General Agents and Managers Association and John E. Upton, supervisor of El Dorado County Board of Supervisors from 1990 to 1998, and the former president of the California State Association of Counties have requested feedback after hearing from Lorraine Guerin, District Director for Assemblyman Joe Coto of the California Legislature. A State Treasurer financial analyst looked into the feasibility of the proposal we presented. Here is feedback from the analyst.

1. Constitutional Amendment. The assessment of property is defined in the State Constitution. Voters would have to approve a change in the constitution to implement any of the proposals set forth.
2. Timing of Revenue Flows. The shift in revenue loss associated with capital gains exemptions in the first year may exceed the revenue gain from a new owner of the senior's former property. The proposal would require a multi-year fiscal analysis to determine whether losses balance gains.
3. Under current law, R&TC Section 69.5, a claimant can transfer the base year property tax value of a sold residence to the new residence within seven counties (Alameda , Los Angeles , Orange , San Diego , San Mateo , Santa Clara and Ventura ) that have approved for an inter-county transfer. An inter-county transfer is the result of board of supervisors in the receiving county adopting an ordinance to accept such transfers.
4. Revenue effects both State and Local. The state adjusts its General Fund appropriation on a dollar-for-dollar basis for every property tax dollar lost or gained to schools, the state will share in the property tax revenue loss to the extent that schools lose property tax revenue. Generally speaking the state General Fund will finance roughly half the property tax revenue loss on the transfer and half the property tax revenue gain from the new owner.
5. Distribution Effects. The proposal would provide incentives for home owners who have experienced capital gains on residential property (\$250,000 single/\$500,000 joint). We do not have access to the distribution of capital gains on such property but it is likely that the homeowners who have gains in excess of \$500,000 would be wealthier.
6. Acceleration of Revenues. Under Proposition 13, residential property eventually undergoes reassessment with property sales. The proposal presumably encourages the transfer of property sales through the capital gains exemption and the reassessment process. Given the age of residents in question, the acceleration may be 10 or 15 years. After 15 years, the proposal would not provide new property tax revenue.
7. The analyst did say that they are unable to measure the many effects of the proposal because they do not have sufficient data to determine the outcomes.

They suggested as a way to simplify the proposal and better control its outcome, proposing a temporary refundable credit rather than a property tax transfer and capital gains exemption. They thought that might be more feasible. The claimant could file with the Franchise Tax Board for a refundable credit valued up to the value of the higher property taxes and capital gains paid. On the application you could require reporting what the buyers is paying in taxes, so you could assess the effect of the credit. You could also limit the amount of tax loss by making the refundable credit subject to appropriation.

Dear Chairman Gerald Parsky:

James U. Hall and John E. Upton have responded to the Office of the State Treasurer financial analyst working with Lorraine Guerin of the California Legislature.

Reaction to Financial Analyst:

1. Yes, but "change of ownership" was defined by statute after Prop.13 was passed and could perhaps be redefined to some extent without a Constitutional amendment. I don't know whether there is enough flexibility there to do us any good, without studying the matter. But in any event, this point does not apply to capital gains tax.
2. I agree
3. Yes, but we do not know how many take advantage of this, and the ordinances could be repealed or overridden by state law.
4. Yes it affects both state and local. But what property tax revenue loss can there be on the transfer? I do not understand. Maybe he meant to say capital gains tax loss.
5. Of course there would be benefits to homeowners that have expensive homes, who are likely to be wealthier. But those who will be influenced to sell sooner are not the really rich, to whom the capital gains tax on sale of a residence is not really sufficiently important to affect their behavior. If there is a significant benefit to the public schools, that is much more important to the average citizen than a minor addition to wealth inequality.
6. It is true that after 10-15 years property tax revenues will no longer continue to increase over the level that would have existed under the current rules. But it seems to me that neither will they decrease to those levels. In other words, it seems to me that they will be at a permanently higher level. Thereafter the rate of increase will probably drop back to where it is now.

A temporary refundable credit for the state capital gains tax, and for the extra property tax that the seller will pay if he moves to a county where he could have transferred his assessment, would be a way of testing the effects of these proposals. But I tend to think that the ability to transfer one's assessment is a minor consideration, and perhaps ought to be eliminated.